

KEYNOTE SPEAKER DENIS McDONOUGH

EH: Eric Hirschhorn

DM: Denis McDonough

EH: It's my pleasure and privilege to introduce today's Keynote Speaker. Before Denis McDonough became Chief of Staff to President Obama, he served as the President's Deputy National Security Advisor. In that capacity his responsibilities often included chairing what are called Deputy's Meetings, sessions at which senior representatives of agencies come together to thrash out administration positions on national security and foreign policy issues. I have participated in some of these meetings during my service in this administration and I can testify that they sometimes include what the diplomats call full and frank discussions in which many views of disparate and difficult to reconcile are aired. Denis invariably ran these meetings fairly but firmly, taking pains to insure that all views were heard but also pressing for decisions that could be taken up the line to Cabinet Principals, Financial Security Advisor, and the President. Moreover he was always impressively familiar with the issues no matter how arcane and managed to retain his sense of humor, so it came as no surprise at least to me when the President chose him to be Chief of Staff.

He is a native of Minnesota and has earned degrees from St. John's University there, and from Georgetown University here in Washington. Before coming to the Obama Administration, Denis worked on the House Foreign Affairs Committee, and for Senators Tom Daschle, and Ken Salazar.

Please join me in welcoming the Chief of Staff to the President of the United States, Denis McDonough.

DM: Alright, good afternoon everybody. Eric thanks very much for that nice introduction, it's nice to see you again. I want to also take a minute to thank Secretary Pritzker, between her and Eric and their teams they have demonstrated tremendous leadership in pulling this conference together, and I have to say it looks pretty outstanding and smells pretty good, too.

I want to thank you for giving me the lunchtime slot, I figured that it's always a little less likely that I'll get heckled when people's mouths are full, but I guess we'll see how that goes. I also hope you don't mind that I made a last minute decision in a

car ride over here which is to scrap the speech I originally prepared which was specifically designed for this event, and I have decided to go with the specially designed remarks instead.

That's pretty good, I have to give Brian credit for that one.

But look, in all seriousness this does look like a very outstanding event, and you should all know that particularly the Commerce folks in the audience that Penny is both an invaluable member of the President's team, the best ally that one could hope for inside the government, and frankly a formidable member of the Principal's Committee, armed with the best data and the most persuasive arguments prepared by the professionals at the Commerce Department day in and day out. So she represents the Commerce Department well, sometimes frankly in my view too well, and she and the President obviously make sure that all of us in the administration are on your team, be that Commerce Department staff or all of you in the business community on your team all day every day.

We are after all working towards numerous shared goals, growth, stronger economy, greater opportunity for all, and I think frankly we're making pretty good progress. We have added 9.7 million private sector jobs across the last 52 months, this includes a very strong first half of this year, 2014 with 1.4 million new jobs overall. That's more jobs that we've created in the first six months of any year since 1999, and thanks to many of you we have seen an especially strong growth in manufacturing, adding over 668,000 new manufacturing jobs, while the manufacturing sector itself is growing at roughly twice the rate as the rest of the economy. So overall the U.S. recovery is well ahead of other countries, we're now at 6% above the pre-crisis level of GDP. Most importantly we are well positioned diverse our global competitors, continuing to lead in innovation and education. We are responsible for over a third of the world's R&N investment and nearly 30% of all patents worldwide come from the U.S. Our workforce remains the most productive in the world, and now we have a new source of competitive advantage, namely energy.

Record levels of oil and gas production have added .2% of GDP over the last two years. Natural gas now costs 1/3 as much here as it does in Asia, and our low energy costs saved domestic manufacturers tens of billions of dollars annually compared to our global competitors. That's all making us much more competitive, and that's probably the reason why the U.S. has returned to the top of AT Kearney's rankings as one of the most attractive global locations for investment in 2013, extending that lead in 2014.

And a recent BCG survey found that 54% of U.S. manufacturers with production abroad are now looking to re-shore to the U.S. up 37% from 2012. So the picture is clear, it's a great moment of opportunity in America and now as we have seen this kind of recovery and growth since the depths of the Great Recession, we will continue to use every tool at our disposal to promote continued growth and opportunity.

Today's event provides me the opportunity to acknowledge the hard work of everyone in this room in a very specific way, between those in industry and the public servants with us today, I'm looking at a team that has turned Export Control Reform into reality.

I want to highlight in particular somebody who I see right here, Brian Nilsson, whom I've been working with since we came into the administration, but also two people I don't see Mike Froman and Jim Jones, who made this a priority for the President right out of the box in 2009.

That reality, the reality that Export Control Reform is indeed reform will help our economy grow and provide more opportunities for American workers. I know I speak for the President when I say that we can't thank each of you enough for your leadership, your patience, and your commitment to progress. The truth is that this isn't work that will earn you or the President many headlines as I know you've noticed, but that's only because these issues are intensely complex. In reality your work has a direct impact on everything we do see in the headlines, including job growth, the strength of the economy, and more and more our national security. Together we have made enormous progress on reform these past five years, there has been unprecedented cooperation between agencies and incredibly valuable consultation from a range of stakeholders like yourselves which has brought us to this point. With your continued help we see the future only getting brighter. The President envisions a new synchronized export control system, one which strikes a critical balance between facilitating secure trade with allies and partners, and preventing harm against our citizens and allies when certain items get into the wrong hands.

More than ever it's clear that our economic security is a key pillar to our national security and it's also clear that Export Control System that we've incrementally replaced was not calibrated to this reality. We need a 21st Century system that meets our 21st Century economic needs, as well as one that confronts the modern day threats that are all too real.

Our effort to rewrite the State Department's U.S. Munitions List has certainly been our primary and most public focus to date, but that's simply because of its scope. It touches everything related to a defense system from an end item weapons system to all its nuts, bolts, and screws. This means our rewrite will have enormous impact on a huge number of people.

And we have already made tremendous progress in prioritizing our Munitions Controls to help less sensitive items flow more easily to our allies and to allow us to zero in on the items and destinations of greater concern. It's been rigorous, multiyear effort, and we have effectively prioritized and published 15 of the 21 Categories on the Munitions List accounting for \$87-billion and supporting 480,000 U.S. jobs, but we need to finish publishing the proposed categories which is our goal by the end of this year, 2014. And while this transition continues, we are already seeing an increase in the use of license exceptions for shipments of less sensitive items like spare aircraft parts, and a wide range of other items which help our allies maintain U.S. origin systems.

This improved flexibility under the Commerce system means we already have greater interoperability with our allies, which also helps to sustain our industrial base. This is one of the most critically important benefits of your work to date on ECR.

In 2010 when Secretary Gates rolled out our ECR work plan he gave an example of a British C17 being grounded in Australia for lack of a key part, it wasn't because that part was unavailable, but rather because our old export control system made it so that our Australian allies had to seek U.S. permission before making the repair for our British allies. Three of the five eyes in a position to not even share a spare part that all of us agreed needed to be deployed quickly. Under our new system that problem is now resolved, new rules in aircraft sector alone have led to a 2/3 reduction in export license applications as items like the part needed for that British C17 can now be more easily exported to our allies and to our partners. This trend will grow as we complete the remaining categories, and you in the industry fully transition into the new system.

It is labor intensive for all of us, I got that, but since the beginning of this effort we accepted that the short term pain will be well worth the long term gain, and frankly we are approaching the finish line. We are modernizing controls to keep pace with technology and committing to regularly review our Munitions Categories to keep the list current. At the same time enhancing enforcement continues to be a top priority. Since standing up our

multiagency export enforcement coordination center in 2012, we are building stronger cases, sharing information between agencies much more efficiently and bumping into ourselves much less frequently as we work to detect and thwart potential threats. By coordinating new export enforcement leads through the Coordination Center we found that in 57% of new cases another department or agency is either already working the lead or has information that would be helpful to this new investigation. This is making us more efficient, effective, and in the end making the country stronger and safer.

All this being said it's important to underscore that rebuilding the Munitions List is a key step, but by no means the only step. We are still deep in the second phase of our three phase implementation work plan which was developed in 2010 and which continues to guide our important work. And the remaining items aren't just finishing touches, frankly they are key fundamental priorities.

This includes a comprehensive review of the Commerce Control List to synchronize regulations with our partners and our allies, while continuing to streamline our licensing and application processes. We still have complex policy issues to resolve, like updating our encryption controls as we committed to do in 2010. We also need to look at issues like cloud computing and cyber security, all new items to our ECR plan intended to help us protect our national security and our economic security in light of new trends and new technology.

Throughout this process we will continue to welcome frank, transparent consultations with all relevant stakeholders. ECR is already a success story because of how well we have all managed to work together, and that includes our colleagues on the Hill which I have to confess is not something we get to say all that frequently these days.

All the work we've done and all that remains is moving us toward the President's vision of a single list, a single licensing agency, a single primary enforcement agency, and a single information technology system, something that is so common sense, it's something we should be able to get behind.

Our hope is to continue to hold to extremely high standards, as long as there is work left to be done and progress to be made, these stakes are high for our economy and the security of our nation, which is why the short term labor we are all undertaking should feel worthwhile. It will continue to bear fruit for the country and your businesses in the long run.

2014 Conference On Export Controls and Policy

We appreciate your partnership in seeing this effort to its successful conclusion. I ask you to please keep reading and commenting on those crazy proposed rules. It has been incredibly helpful to us internally I have to say, as well as with our negotiations on the Hill, and as with anything it's all too often only frustrated folks who take the time to comment, but you all have bucked that trend and I ask you to continue.

You have been wonderful collaborators and on behalf of the President I can't thank you enough for all you continue to do to move our effort, our common effort forward as we continue to add growth and opportunity through this critically important sector. So I thank you again for welcoming me to join you today. I wish you well over the course of the next several days on this critically important effort, and please stick with us while we see this effort through.

Thanks a lot everybody.